



January 15, 2014

Mr. R. Kevin Clinton
State Treasurer,
Michigan Department of Treasury
Bureau of Local Government Services
4th Floor Treasury Building
430 West Allegan Street
Lansing, MI 48992

Dear Mr. Clinton:

I enclose the quarterly report of the Emergency Manager of the City of Detroit as required by Section 9(5) of the Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012). The report details the financial condition of the City for the quarterly period of October 1, 2013 through December 31, 2013.

Respectfully submitted,

Keyvn D. Orr
Emergency Manager
City of Detroit

Enclosure

cc: Mr. Tom Saxton, Chief Deputy Treasurer
Mr. Edward B. Koryzno, Administrator, Office of Fiscal Responsibility

State Representatives

The Hon. Brian Banks
The Hon. Alberta Talabi
The Hon. John Olumba
The Hon. Rose Mary Robinson
The Hon. Fred Durhal
The Hon. Rashida Tlaib
The Hon. Thomas Stallworth
The Hon. David Nathan
The Hon. Harvey Santana
The Hon. Phil Cavanagh

State Senators

The Hon. Coleman Young, II
The Hon. Bert Johnson
The Hon. Morris W. Hood, III
The Hon. Virgil Smith
The Hon. Tupac A. Hunter

**QUARTERLY REPORT WITH RESPECT TO THE FINANCIAL CONDITION OF
THE CITY OF DETROIT**

January 15, 2014

This quarterly report covers the period from October 1, 2013 through December 31, 2013 (the "Reporting Period") and addresses the financial condition of the City of Detroit.

Local Financial Stability and Choice Act (Michigan Public Act 436 of 2012) ("PA 436")

Section 9(5) [MCL § 141.1549(5)]

The emergency manager shall submit quarterly reports to the state treasurer with respect to the financial condition of the local government in receivership, with a copy to the superintendent of public instruction if the local government is a school district and a copy to each state senator and state representative who represents that local government. In addition, each quarterly report shall be posted on the local government's website within 7 days after the report is submitted to the state treasurer.

Status of the Financial Condition of Detroit
October 1, 2013 – December 31, 2013

Emergency Manager's Comments on the Financial Condition of the City of Detroit

The financial condition of the City of Detroit continues to be dire. On July 18, 2013, the City filed for relief under chapter 9 of title 11 of the United States Code (the "Bankruptcy Code"), and during the Reporting Period the Bankruptcy Court determined that the City is eligible to be a debtor in the Bankruptcy Case. The City has stopped making payments related to unsecured funded debt and legacy liabilities, with the exception of retiree healthcare benefits, which the City continued to pay in the ordinary course during the Reporting Period, and certain important vendors. The City is in the process of seeking a postpetition bankruptcy loan (described below and defined as the "Postpetition Financing").

General Fund cash flows and liquidity results for the second quarter of fiscal year 2014 (See Appendix A)

The City's 2014 fiscal year runs from July 1, 2013 through June 30, 2014. At the beginning of the second quarter of fiscal year 2014, the City's General Fund had cash of \$211.6 million before accumulated property tax distributions in the amount of \$83.1 million, resulting in a net unrestricted cash balance of \$128.5 million. Based upon actual results for the second quarter of fiscal year 2014 (i.e., the three months ended December 27, 2013), the City had negative net cash flow of \$8.2 million. This resulted in cash balance of \$203.4 million, as of December 27, 2013, before deducting accumulated property tax distributions of \$115.9 million (preliminary estimate), leaving a net ending unrestricted cash balance of \$87.5 million.

During the second quarter, the City continued to make payments related to certain LTGO debt, UTGO debt, and certificate of participation interest rate swaps that constitute secured debt. Amounts paid related to these obligations on a cash basis were \$4.9 million, \$3.3 million, and \$8.5 million, respectively. While the City has continued to make payments related to health coverage for retirees during the Reporting Period, the General Fund did not make pension contributions to either the General Retirement System ("GRS") or the Police and Fire Retirement System ("PFRS"). Similarly, the City did not make any payments on unsecured bond debt during the second quarter.

This unrestricted cash balance exceeded the second quarter forecasted balance by \$40.7 million. When comparing the forecasted and actual cash flows for the second quarter of fiscal year 2014, the major variances were as follows:

- \$37.6 million positive variance in property taxes (net of actual and accrued distributions) related to timing of collections.
- \$11 million negative variance in Income & utility taxes related to impact of Public Lighting and Authority's capturing of its portion of utility taxes.
- \$20 million negative variance in refinancing proceeds since bond proceeds were not drawn and remained in escrow as of 12/27/13.

- \$8.6 million negative variance in Benefits payments related to past-due amounts owed to health care vendors.
- \$12.7 million positive variance in Pension contributions related to timing of contributions towards a retirement program to be designed for active employees as part of the City's plan of adjustment.
- \$11.5 million positive variance in Subsidy payments primarily related to timing of cash needs at the Department of Transportation.
- \$21.6 million positive variance in Account Payable and other miscellaneous payments due to a deferral of reinvestment spending.

Preliminary unaudited revenues and expenditures for the 6 Months Ended December 2013 (See Appendix B)

The revenues and expenditures report includes entries that have not been posted in the general ledger and encumbrances. This manner of presentation provides the most up to date data on revenues and expenditures. Unposted entries are preliminary and subject to review before they are finalized; therefore, actual results will likely be different from the preliminary results presented herein, and those differences may be material.

Preliminary unaudited General Fund revenues and expenditures for the second quarter ended December 31, 2013 result in a surplus of \$34.1 million. Year-to-date revenues are approximately \$6.0 million lower than the last fiscal year mostly related to declining trends in utility users' taxes, licenses charges, and general fund contributions, offset by sales and charges for services, relative to the same period in the prior year. Operating expenditures have declined by approximately \$51.9 million, largely due to a reduction in employee headcount, from 9,847 city employees as of December 31, 2012 to approximately 9,071 city employees as of December 31, 2013.

Emergency Manager Actions Regarding Restructuring Process

Background

The Emergency Manager previously submitted quarterly reports pursuant to section 9(5) of PA 436 dated July 15, 2013 and October 15, 2013 (together, the "Prior Reports"). As described in the Prior Reports, immediately upon his appointment, the Emergency Manager began the process of developing a comprehensive restructuring plan for the City and addressing the City's other urgent needs. The Emergency Manager has taken decisive action to improve public health and safety by taking steps to update outdated and poorly maintained emergency vehicles, information technology infrastructure and facilities and address other longstanding needs of the City. These activities are described in the Prior Quarterly Reports and include, among other things, opening the Detroit Public Safety Headquarters, hiring a new Chief of Police and developing and pursuing a plan to fix streetlights and address the City's outdated power grid.

To assist in this process, the Emergency Manager spent significant time from the outset of his appointment working with the City's financial and legal advisors to cast a critical eye on all of the City's financial obligations and operational issues to develop a realistic assessment of the City's problems, obstacles, needs and opportunities. As noted in the Prior Quarterly Reports, the goal of this process was to develop a comprehensive plan to: (a) ensure that the City is able to provide for or procure governmental services essential to the health, safety and welfare of its citizens; (b) assure the fiscal accountability and stability of the City; and (c) promote private investment in the City and the revitalization of the community in a sustainable fashion.

One of the first steps was the development of a financial and operating plan for the City (the "Financial and Operating Plan"), which placed the City's challenges in context and defined a series of goals and initiatives. The Financial and Operating Plan, dated May 12, 2013, was submitted to the State Treasurer as required by section 11(2) of PA 436 on May 13, 2013 and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

Continuing to build on these actions, the Emergency Manager and his advisors developed and presented a detailed restructuring proposal to creditors on June 14, 2013 (the "Restructuring Proposal"). The 128-page Restructuring Proposal details a thorough overhaul and restructuring of the City's operations, finances and capital structure. The Restructuring Proposal also proposes recoveries for each creditor group. The proposal was based on ten-year projections that provide a realistic basis for evaluating the City's financial wherewithal to satisfy creditors' claims and achieve the City's restructuring goals. The Restructuring Proposal is described in the First Quarterly Report and is available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Reports.aspx>.

As noted in the Prior Quarterly Reports, following the presentation of the Restructuring Proposal to approximately 150 creditor representatives on June 14, 2013, the City conducted a series of individualized meetings with its organized and represented creditor constituencies to (a) provide them with additional details on the financial condition of the City; (b) describe key assumptions used to develop the ten-year projections underlying the Restructuring Proposal; (c) provide a forum to answer questions from creditors; (d) solicit responses and counter-proposals from the various constituencies; and (e) negotiate regarding the City's Restructuring Proposal. Despite these efforts, the negotiation of a comprehensive consensual restructuring proved to be impracticable.

On July 18, 2013 (the "Petition Date"), following approval by the Governor, the City filed a voluntary petition commencing a case under chapter 9 of the federal Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Michigan (the "Bankruptcy Court"), which case is captioned *In re City of Detroit, Michigan*, Case No. 13-53846 (the "Bankruptcy Case"). Along with its voluntary petition, the City filed various other papers, including the Declaration of Kevyn D. Orr in Support of City of Detroit, Michigan's Statement of Qualifications Pursuant to Section 109(c) of the Bankruptcy Code (the "Orr Declaration"). The Orr Declaration explains the history of the City's financial and operational problems, details the dire circumstances facing the City and provides support for the City's eligibility to be a chapter 9 debtor under the Bankruptcy Code. The Orr Declaration, along with other Bankruptcy

Case filings and other information relevant to the Bankruptcy Case can be found on the website of the City's claims and noticing agent at www.kccllc.net/Detroit.

Since the commencement of the bankruptcy case, the City has been working toward the goal of achieving a comprehensive restructuring through the chapter 9 plan of adjustment process. A more detailed description of the events leading up to, and the commencement of, the Bankruptcy Case is provided in the Prior Quarterly Reports.

General Actions During the Reporting Period

During the Reporting Period, the Emergency Manager, his staff and outside advisors have continued to dedicate significant time and energy to addressing the City's financial and operational emergency. Just as with respect to prior reporting periods, meetings with interested parties, state and federal government officials, professional advisors and creditors occur numerous times each week, if not daily.

In support of the City's restructuring, the Emergency Manager issued several important orders that promote the health, safety and welfare of the City's residents and visitors. These orders also were designed to assist the Emergency Manager in his efforts to analyze the factors and circumstances contributing to the City's financial emergency. Since the submission of the Second Quarterly Report, the Emergency Manager has entered orders consistent with PA 436, including orders that: (a) authorized certain key City financial personnel and advisors to negotiate the terms of and document a secured financing transaction (i.e., Postpetition Financing), as more fully described below; (b) approved the entry into certain agreements by the City and the new Public Lighting Authority (the "PLA") relating to the issuance of certain bonds that will enable the PLA to reconfigure the City's streetlight footprint to provide reliable public lighting service and make the streets safer for the City's citizens; (c) eliminated certain furloughs affecting non-union executive and legislative branch employees, which furloughs created unnecessary inefficiencies in the operation of the City's departments; (d) suspended the accrual of benefits under the City's pension fund for non-public safety workers, the GRS, replacing the GRS with a new qualified defined contribution plan to enhance the City's ability to provide necessary governmental services essential to the public health, safety and welfare in addition to rectifying the City's financial emergency (under review); and (e) adopted an agreement entered into between the Emergency Manager and then Mayor-elect Michael E. Duggan concerning the delegation of certain authority from the Emergency Manager to the Mayor and related transition protocols to assist in the efficient operation of the City. These orders, in addition to all prior and future orders, are available on the City's website at <http://www.detroitmi.gov/EmergencyManager/Orders.aspx>.

Activities in the Bankruptcy Case

The Emergency Manager continues to move the Bankruptcy Case forward as expeditiously as possible to complete an adjustment of the City's debts under the Bankruptcy Code by no later than September 2014. Concluding the Bankruptcy Case in a timely and efficient manner is important to the City's revitalization and reinvestment activities because it will free the City from burdensome and unsustainable debt obligations and allow the City to reinvest in operations and infrastructure, which will

in turn attract new businesses and residents to the City and promote the health, safety and welfare of the public.

Since filing the Bankruptcy Case, the Emergency Manager has coordinated the City's legal strategy related to bankruptcy with his professional advisors. The Emergency Manager is committed to advancing the bankruptcy process as promptly and efficiently as possible to complete a sustainable adjustment of the City's debts. From the outset, the Emergency Manager has exercised the City's rights, and fulfilled the City's obligations, to pursue these goals. Certain of the primary activities in the Bankruptcy Case during the Reporting Period are summarized below:

Administrative Matters

The Emergency Manager has continued to fulfill various key administrative requirements of the Bankruptcy Case. Notably, during the Reporting Period, the Emergency Manager addressed various issues relating to the administration of claims against the City.

On October 10, 2013, for example, the City filed a motion in the Bankruptcy Case seeking to establish the deadlines for creditors to file proofs of claim against the City (the "Bar Date Motion"). On November 21, 2013, the Bankruptcy Court entered an order overruling the remaining unresolved responses to the Bar Date Motion and establishing February 21, 2014 at 4:00 p.m., Eastern Time, as the deadline for most of the City's creditors to file proofs of claim in the Bankruptcy Case (the "Claims Bar Date").

Also during the Reporting Period, the Emergency Manager has taken steps toward resolving and quantifying contingent, unliquidated and disputed claims against the City in the Bankruptcy Case. On November 12, 2013, the City filed a motion seeking the Bankruptcy Court's approval of a set of mandatory alternative dispute resolution procedures (collectively, the "ADR Procedures") to promote the efficient liquidation of tort claims and other claims designated by the City. The ADR Procedures generally involve the mandatory exchange of settlement offers between the parties, followed by case evaluation and, if agreed to by the parties, binding arbitration. On December 24, 2013, the Bankruptcy Court entered an order establishing the ADR Procedures. The City expects that the ADR Procedures will begin to be implemented shortly after the Claims Bar Date.

Eligibility

A threshold issue upon the commencement of the Bankruptcy Case was whether the City is eligible to be a chapter 9 debtor. The City began to pursue a finding of its eligibility from the Petition Date. That effort bore fruit during the Reporting Period when the Bankruptcy Court determined that the City in fact is eligible to be a debtor in the Bankruptcy Case. This determination required the Bankruptcy Court to find that, among other things: (a) the City is specifically authorized to be a debtor under Michigan law; (b) the City is insolvent; (c) the City desires to effectuate a plan to adjust its debts; and (d) either (i) the City negotiated in good faith with its various creditor constituencies or (ii) it was impracticable to negotiate with the City's creditors.

To resolve this threshold issue of eligibility without delay, the City had requested that the Bankruptcy Court expedite the process of identifying and adjudicating any objections to eligibility. In response, Judge Rhodes established a prompt timeline to determine whether the City is eligible to be a debtor under chapter 9 of the Bankruptcy Code. This resulted in over 100 objections to the City's eligibility within the first month of the Bankruptcy Case.

Within days of the eligibility objections being filed, the City and the objecting parties exchanged written discovery requests. Within approximately two weeks, the City produced over 10,000 documents in response to over 115 document requests, in addition to responding to over 150 interrogatories and nearly 50 requests for admission from the various objectors. In addition to the fast-paced and voluminous discovery, the Bankruptcy Court conducted numerous hearings related to the City's eligibility, ranging from discovery and privilege disputes to substantive legal arguments related to the Bankruptcy Court's constitutional authority to decide whether the City is eligible to be a chapter 9 debtor. In a compressed period, numerous depositions were taken of various City employees and professional advisors, the Mayor, the Emergency Manager and certain State officials, as well as depositions of certain of the Objectors or their representatives. Ultimately, the City conducted or defended nearly 40 depositions. Oral argument before Judge Rhodes on purely legal issues associated with eligibility was conducted on October 15 and 16, 2013. A nine-day bench trial before Judge Rhodes on the factual basis for the City's chapter 9 eligibility was conducted between October 23, 2013 and November 8, 2013.

On December 5, 2013, the Bankruptcy Court entered (a) its opinion holding that the City is eligible to be a debtor under chapter 9 of the Bankruptcy Code and (b) an order for relief entitling the City to proceed under chapter 9 (the "Order for Relief"). A number of objectors filed notices of appeal of the Order for Relief and certain of them sought certification of their appeals directly to the United States Court of Appeals for the Sixth Circuit (the "Court of Appeals") instead of to the United States District Court for the Eastern District of Michigan (the "District Court"). The objectors also requested that the Bankruptcy Court recommend the expedited consideration of the appeal. On December 20, 2013, the Bankruptcy Court entered a memorandum: (a) certifying that the eligibility determination is a matter of public importance, such that the Court of Appeals should consider whether a direct appeal of the Order for Relief is appropriate; but (b) recommending that the Court of Appeals deny the request for a direct appeal and the request expedited consideration of the appeal. Briefing regarding the appellants' petition for a direct appeal is underway in the Court of Appeals.

Swap Settlement

Prior to the Petition Date, the Emergency Manager reached a consensual resolution of certain interest rate swap agreements (collectively, the "Swap Agreements") to eliminate one of the City's largest secured obligations at a discount and ensure ongoing access to critical casino revenues that were pledged to support the Swap Agreements (the "Casino Revenues"). This agreement is memorialized in Forbearance and Optional Termination Agreement (the "FOTA") between the City and the swap counterparties.

On the Petition Date, the City filed a motion with the Bankruptcy Court to assume the FOTA under section 365 of the Bankruptcy Code and approve the parties' settlement under Rule 9019 of the Federal Rules of Bankruptcy Procedure (the "Settlement Motion"). There has been opposition to the Settlement Motion, particularly from Syncora Guarantee, Inc. ("Syncora") and other monoline insurers, which has resulted in litigation regarding, among other things, the appropriateness of the compromises in the FOTA, the swap counterparties' ability to consummate the FOTA and the City's ability to pay for the settlement. Ultimately, the City negotiated the proposed Postpetition Financing (as described below) to assist in funding the discounted payoff of the swaps provided under the FOTA. Under the FOTA as initially proposed, approximately \$266 million in swap liabilities as of December 10, 2013 could be paid off for an optional termination payment (the "Optional Termination Payment") of approximately \$200 million, assuming a maximum 25% discount.

On August 22, 2013, the Bankruptcy Court entered its "Second Order Referring Matters to Facilitative Mediation," which referred all disputes arising in connection with the FOTA for facilitative mediation. Mediation regarding the Settlement Motion and the FOTA has been conducted before District Court Chief Judge Gerald E. Rosen and Judge Elizabeth Perris of the United States Bankruptcy Court for the District of Oregon (together, the "Swap Mediators"). An evidentiary hearing to consider the Settlement Motion, as well as the Postpetition Financing, was commenced on December 17, 2013. On December 18, 2013, Judge Rhodes ordered the parties back to mediation to discuss a reduction of the Optional Termination Payment.

Additional mediation sessions were convened on December 23, 2013 and December 24, 2013. Ultimately, these discussions led to an agreement to fix the Optional Termination Payment at \$165 million (the "Reduced Optional Termination Payment"). On December 30, 2013, the Swap Mediators filed a document in the Bankruptcy Case (the "Recommendation") recommending that the Bankruptcy Court enter an order approving the Settlement Motion, as modified by the Reduced Optional Termination Payment. After the Swap Mediators filed the Recommendation, various parties have filed supplemental objections and related joinders to the Settlement Motion as well as a joint objection to the Recommendation itself.

Evidence and closing arguments with respect to the Settlement Motion concluded on January 13, 2014 and a ruling from Judge Rhodes is expected on January 16, 2014. The Emergency Manager believes that approval of the swap settlement would be an important step in the City's restructuring.

Postpetition Financing

To fund the proposed settlement with the swap counterparties described above and to obtain cash necessary to make critical reinvestments in the City, the City determined that it needed new Postpetition Financing. After months of effort, the City received a commitment for new bankruptcy financing from Barclays Capital Inc. ("Barclays"). On November 5, 2013, the City filed a motion in the Bankruptcy Case for authorization, among other things, to obtain senior secured Postpetition financing from Barclays on a superpriority basis. Following the FOTA amendment reducing the Optional

Termination Payment to a fixed amount of \$165 million, the Postpetition Financing was reduced to a maximum borrowing of \$285 million.

The Postpetition Financing is comprised of two series of secured bonds — the "Swap Termination Bonds" and the "Quality of Life Bonds" (together, the "Bonds"). The proceeds of the Swap Termination Bonds (i.e. \$165 million) will allow the City to: (a) capture a significant negotiated discount in the termination of the secured swap obligations consistent with the Reduced Optional Payment — resulting in substantial savings assuming that the Settlement Motion is approved, as modified; and (b) eliminate its significant annual debt service obligations with respect to the Swap Agreements, thus saving the City over \$35 million per year in future liability. These significant savings would not have been possible without the Postpetition Financing, thus making the Postpetition Financing a vital component of the City's overall restructuring strategy.

The proceeds of the Quality of Life Bonds will be used to advance certain key investment initiatives of the City, including, but not limited to, essential investments in blight removal, public safety and technology infrastructure. The Postpetition Financing derived from the Quality of Life Bonds (the "Quality of Life Financing") will empower the City to begin the critical initial steps of rebuilding itself. Although the funds sought via the Quality of Life Financing will not address all of the City's reinvestment initiatives, the Quality of Life Financing will kick-start a long-term reinvestment process at the rate of approximately \$20 million per month of net reinvestment activity during the current fiscal year. Without borrowed funds, there is a material risk that the City would have to cut back substantially or eliminate its reinvestment efforts in the near-term, and the City's ability to invest in the future would continue to be hamstrung and imperiled by the City's ongoing financial constraints.

The sums borrowed in connection with the Quality of Life Financing are designed to be a manageable and responsible amount of debt load that the City can service, while at the same time making a meaningful investment into the City's infrastructure and labor requirements. The Bonds will mature on the earliest to occur of (a) dismissal of the Bankruptcy Case, (b) the effective date of a confirmed plan of adjustment for the City, (c) the date on which maturity of the Bonds is accelerated pursuant to the governing documents and (d) the date that is two years and six months after the closing date of the Postpetition Financing (such applicable date, the "Maturity Date"). There is no scheduled amortization of principal prior to the Maturity Date. Interest under the Postpetition Financing accrues at one-month London interbank offered rate ("LIBOR") (which at all times shall include statutory reserves and shall be deemed to be not less than 1.00% per annum) plus 250 basis points, subject to market flex that could increase the overall effective interest by three basis points. Interest payments are due each LIBOR reset date, the date of any redemption of the Bonds (in whole or in part) and the Maturity Date.

The City is required to utilize all net proceeds derived from a transaction or series of related transactions involving the voluntary disposition or monetization of any City-owned asset that generates net cash proceeds from such transaction or series of transactions exceeding \$10,000,000 (the "Asset Proceeds Collateral") to redeem the Bonds on a ratable basis. Principal outstanding in respect of the Bonds will be due and payable in full upon the Maturity Date.

The obligations owing by the City under the Postpetition Financing with respect to the Quality of Life Bonds will be secured by (a) a first priority lien on (i) the Casino Revenues and (ii) the Asset Proceeds Collateral (the "Asset Proceeds Lien") and (b) a second priority lien on the income tax revenues of the City (the "Pledged Income Tax Revenue"). The obligations owing by the City under the Postpetition Financing with respect to the Swap Termination Bonds are secured by (a) the Asset Proceeds Lien and (b) a first priority lien on the Pledged Income Tax Revenue.

A ruling on the Financing Motion is expected on January 16, 2014. The Emergency Manager believes that approval of the Postpetition Financing would be an important step in the City's restructuring.

Mediation

In addition to mediation of the swap settlement disputes, substantial time and effort has been devoted by the Emergency Manager and his staff and advisors to negotiating other key restructuring issues through a mediation program established by the Bankruptcy Court to facilitate these efforts. In particular, Judge Rhodes appointed District Court Chief Judge Rosen as lead mediator for the City's Bankruptcy Case. In turn, Judge Rosen appointed six additional mediators, each focusing on different elements of the City's restructuring and reorganization activities. To date there have been multiple, regular mediation sessions and numerous written submissions related to, among other things, the City's core restructuring and reorganization initiatives outlined in the Restructuring Proposal, as well as labor and pension matters. The Emergency Manager has embraced the mediation process.

Outside of the mediation sessions, the City has continued to engage in ongoing dialog with its unions, pension systems, debt holders (trustees, individual holders and ad hoc groups), the Retiree Committee and other interested parties to advance key restructuring issues. The Emergency Manager and his staff and advisors will continue to meet with creditors and interested parties with the goal of developing, to the fullest extent possible, a consensual plan that addresses the City's operational and financial restructuring needs.

Bankruptcy Court Litigation

During the Reporting Period, the Emergency Manager, through his staff and advisors also has been required to respond to several lawsuits commenced or continued in the Bankruptcy Court by parties in interest in the Bankruptcy Case, many of whom also are involved in ongoing mediation proceedings and other restructuring negotiations with the City.

City of Detroit, Michigan v. Syncora Guarantee Inc., et al., Adv. Proc. No. 13-04942 (the "Casino Revenue Proceeding"). On August 8, 2013, the District Court referred to the Bankruptcy Court a lawsuit originally commenced by the City in the Wayne County Circuit Court seeking a declaration that Syncora is prohibited from taking any action to block the City's access to the Casino Revenues. On November 25, 2013, the Bankruptcy Court entered a stipulated order that, among other things, stayed the Casino Revenue Proceeding for a period of 60 days from the date of the order. As of the date of this Report, the Casino Revenue Proceeding remains pending and subject to the stipulated stay.

Syncora Guarantee Inc. v. UBS AG, et al., Adv. Proc. No. 13-05395 (the "Swap Settlement Proceeding"). Prior to the Petition Date, Syncora commenced the Swap Settlement Proceeding in New York state court seeking to enjoin the counterparties to the Swap Agreements (together, the "Swap Counterparties") from entering into the FOTA. The Swap Settlement Proceeding was removed to the United States District Court for the Southern District of New York and then transferred to the District Court. On October 10, 2013, the City filed a motion to intervene in the Swap Settlement Proceeding. As of the date of this Report, the City's motion to intervene remains pending. The Swap Counterparties have filed a motion to dismiss the Swap Settlement Proceeding, which the Mediators have recommended the Bankruptcy Court consider in conjunction with its consideration of the Settlement Motion.

The Official Committee of Retirees of the City of Detroit, Michigan, et al. v. The City of Detroit, Michigan, et al., Adv. Proc. No. 13-05244 (the "First Retiree Proceeding"). On October 22, 2013, the official committee of retirees appointed in the Bankruptcy Case, Detroit Retired City Employees Association, Retired Detroit Police and Fire Fighters Association and AFSCME Subchapter 98, City Of Detroit Retirees (collectively, the "Retiree Representatives") filed a complaint against the City and the Emergency Manager seeking an order reinstating certain retiree health benefits modified by order of the Emergency Manager and enjoining the City and the Emergency Manager from making further modifications to retiree health benefits. During the pendency of the First Retiree Proceeding, the parties were engaged in mediation before Chief Judge Rosen of the District Court. As a result of negotiations between the parties (including the temporary deferral of proposed changes to retiree benefits), on November 8, 2013, the plaintiffs filed a notice of dismissal of the First Retiree Proceeding without prejudice. Following the Reporting Period, on January 9, 2014, the Retiree Representatives commenced a second proceeding against the City and the Emergency Manager, The Official Comm. of Retirees of the City of Detroit, Michigan, et al. v. The City of Detroit, Michigan, et al., (Adv. Proc. No. 14-04015) (the "Second Retiree Proceeding"), seeking similar relief to that requested in the First Retiree Proceeding with respect to certain retiree healthcare modifications announced by the Emergency Manager for the 2014 plan year. As of the date of this Report, a motion to dismiss the Second Retiree Proceeding filed by the City and the Emergency Manager remains pending.

National Public Finance Guarantee Corp., et al. v. City of Detroit, Michigan, et al., Adv. Proc. No. 13-05309 (the "UTGO Proceeding"). On November 8, 2014, monoline insurers National Public Finance Guarantee Corporation ("National") and Assured Guaranty Municipal Corporation ("Assured") filed a complaint against the City, the Emergency Manager and the City Finance Director, Deputy Finance Director and Treasurer seeking a declaratory judgment that the City is required to segregate certain *ad valorem* tax revenues for the ultimate payment of amounts due under the City's unlimited tax general obligation bonds. On December 9, 2013, the City, on the one hand, and the remaining defendants, separately, filed motions to dismiss the complaint on various grounds. On December 23, 2013, National and Assured filed their first amended complaint in the UTGO Proceeding. As of the date of this Report, the City, the Emergency Manager and the other defendants in the UTGO have not yet responded to the amended complaint, and the UTGO Proceeding remains pending before the Bankruptcy Court.

Ambac Assurance Corp. v. City of Detroit, Michigan, et al., Adv. Proc. No. 13-05310 (the "UTGO/LTGO Proceeding"). Also on November 8, 2014, Ambac Assurance Corporation ("Ambac") filed a complaint

against the City, the Emergency Manager and the City Finance Director, Deputy Finance Director and Treasurer seeking substantially similar relief to that sought in the UTGO Proceeding but with respect to the City's limited and unlimited tax general obligation bonds. Motions to dismiss the UTGO/LTGO Proceeding were filed by the defendants, and, like the plaintiffs in the UTGO Proceeding, Ambac responded by amending its complaint. The City, the Emergency Manager and the other defendants in the UTGO/LTGO Proceeding have not yet responded to Ambac's amended complaint, and the UTGO/LTGO Proceeding also remains pending before the Bankruptcy Court.

Plan of Adjustment

The Bankruptcy Court set a deadline of March 1, 2014 for the City to file a plan of adjustment (a "Plan") in the Bankruptcy Case. During the Reporting Period, the Emergency Manager has made substantial progress on the development and negotiation of the terms of a Plan, and the Emergency Manager intends to file the City's proposed Plan and related disclosure statement in advance of the deadline set by the Bankruptcy Court.

Appendices

- A. Cash Flow Actuals and variance to Forecast for the Period Oct-Dec 2013
- B. Preliminary Unaudited Revenues and Expenditures for 6 Months Ended December 2013

	FY 2014		
	Forecast	Actual	Variance
	Q2	Q2	Q2
<i>\$ in millions</i>			
Operating Receipts			
Property taxes	\$ 30.2	\$ 67.8	\$ 37.6
Income & utility taxes	74.9	64.0	(11.0)
Gaming taxes	40.7	39.2	(1.5)
Municipal service fee to casinos	8.0	8.0	-
State revenue sharing	30.9	32.2	1.3
Other receipts	77.2	86.1	8.9
Refinancing proceeds	20.0	-	(20.0)
Total operating receipts	281.9	297.3	15.4
Operating Disbursements			
Payroll, taxes, & deductions	(90.9)	(85.3)	5.6
Benefits	(48.8)	(57.3)	(8.6)
Pension contributions	(12.7)	-	12.7
Subsidy payments	(13.5)	(2.1)	11.5
Distributions - tax authorities	(23.3)	(18.2)	5.1
Distributions - UTGO	-	-	-
Distributions - DDA increment	(8.0)	(0.4)	7.6
Income tax refunds	(2.5)	(3.5)	(1.0)
A/P and other miscellaneous	(146.8)	(125.3)	21.6
Sub-total operating disbursements	(346.6)	(292.1)	54.5
POC and debt related payments	(17.6)	(13.4)	4.2
Total disbursements	(364.2)	(305.5)	58.8
Net cash flow	(82.3)	(8.2)	74.2
Beginning cash balance	211.6	211.6	-
Net cash flow	(82.3)	(8.2)	74.2
Cash before required distributions	\$ 129.3	\$ 203.4	\$ 74.2
Accumulated property tax distributions	(82.4)	(115.9)	(33.5)
Cash net of distributions	\$ 46.8	\$ 87.5	\$ 40.7
Memo:			
Refunding bond proceeds in escrow	59.5	79.5	20.0

	6 Months Ended Dec-12	6 Months Ended Dec-13	FY14 - FY13 Difference
<i>(\$ in millions)</i>			
Revenues			
Property Taxes	\$ 71.9	\$ 73.8	\$ 1.8
Municipal Income Tax	112.0	112.6	0.6
Wagering Taxes	92.2	91.3	(0.9)
Utility Users' and other taxes	11.6	1.9	(9.7)
Licenses, Permits and Inspection Charges	6.8	1.5	(5.2)
State Revenue Sharing	92.8	96.8	4.0
Sales and Charges for Services	53.1	67.3	14.2
Revenue from Use of Assets	2.3	3.4	1.2
Parking/court fines and other revenue	18.0	20.8	2.8
General Fund and Other Contributions	33.1	18.7	(14.4)
Grant Revenue	18.5	18.1	(0.4)
Transfers in	-	-	-
Total revenues	512.2	506.2	(6.0)
Expenditures			
Salaries & Wages	(158.7)	(136.1)	22.5
Overtime	(14.4)	(17.5)	(3.1)
Pensions	(66.8)	(67.5)	(0.8)
Benefits	(115.2)	(99.2)	16.0
Professional and contractual services	(28.3)	(59.8)	(31.5)
Materials & Supplies	(25.7)	(24.0)	1.8
Utilities	(5.4)	(4.1)	1.4
Purchased Services	(2.4)	(5.6)	(3.3)
Risk management and insurance	(46.6)	(22.6)	24.0
Other expenses	(19.6)	(20.5)	(0.9)
Debt Service	(4.3)	(2.7)	1.6
Contributions	(1.4)	(1.6)	(0.1)
Transfers Out	(39.2)	(14.9)	24.3
Total expenditures	(527.9)	(476.1)	51.9
Deficit (excl. financing proceeds)	(15.8)	30.1	45.8
Financing proceeds	148.0	4.1	(143.9)
Total surplus (deficit)	\$ 132.2	\$ 34.1	\$ (98.1)